

EASTPOINTE HOUSING COMMISSION
EASTPOINTE, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
AND
REPORTS ON COMPLIANCE AND
ON INTERNAL CONTROL

MAR 07 2007

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Eastpointe Housing Commission	County
Fiscal Year End June 30, 2006	Opinion Date November 29, 2006	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

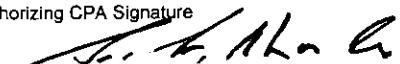
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NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Sailor, Khan & Co., LLC		Telephone Number 314-726-3308	
Street Address P.O. Box 16180		City St. Louis	State MO
Zip 63105			
Authorizing CPA Signature 		Printed Name Shah I. Khan	License Number 1101018584

EASTPOINTE HOUSING COMMISSION
Eastpointe, Michigan

TABLE OF CONTENTS

JUNE 30, 2006

	<u>Page</u>
Independent Auditor's Report	i
Management's Discussion and Analysis (unaudited)	ii-vi
Basic Financial Statements:	
Statement of Net Assets	1-2
Statement of Revenue, Expenses and Changes in Net Assets	3
Statement of Cash Flows	4-5
Notes to Financial Statements	6-16
SUPPLEMENTAL INFORMATION	
Combining Statement of Net Assets By Program	17-20
Combining Statement of Revenue, Expenses and Changes in Fund Net Assets By Program	21-22
Combining Statement of Cash Flows By Program	23-26
Schedule of Expenditures of Federal Awards and Notes to the Schedule of Federal Awards	27
Financial Data Schedule	28-35
REPORTS ON COMPLIANCE AND ON INTERNAL CONTROL	
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	37-38
Status of Prior Audit Findings	39
Schedule of Findings and Questioned Costs:	
Section I - Summary of Auditor Results	40
Section II - Financial Statement Findings	41
Section III - Federal Awards Findings	41

Khan & Co. LLC**INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners
Eastpointe Housing Commission
Eastpointe, Michigan

We have audited the accompanying basic financial statements of the Eastpointe Housing Commission, Michigan, (Commission) as of and for the year ended June 30, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

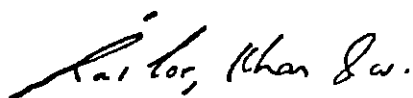
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Eastpointe Housing Commission, Michigan, as of June 30, 2006, and the changes in its financial position and its cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2006, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages ii to vi is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the remaining accompanying supplemental information including the Financial Data Schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Sailor, Khan & Co. LLC
November 29, 2006

Eastpointe Housing Commission

Management's Discussion and Analysis (MD&A)

June 30, 2006

(Unaudited)

This section of the Eastpointe Housing Commission (Commission) annual financial report presents our management's discussion and analysis of the Commission's financial performance during the fiscal year ended on June 30, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

For accounting purposes, the Housing Commission is classified as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

FINANCIAL HIGHLIGHTS

The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of June 30, 2006 were \$4,532,801. The net assets increased by \$86,598, an increase of 1.9% over the prior year.

Revenues and contributions for the Commission were \$1,760,872 for the year ended June 30, 2006. This was an increase of \$155,120 or 9.7% from the prior year.

Expenses for the Commission were \$1,717,023 for the year ended June 30, 2006. This was a decrease of \$20,249 or 1.2% from the prior year.

HUD operating grants were \$1,273,140 for the year ended June 30, 2006. This was an increase of \$203,840 or 19.1% over the prior year. Capital contributions for the Commission were \$21,000 for the year ended June 30, 2006. This was a decrease of \$88,252 or 80.8% over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this *Management Discussion and Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund level financial statements because the Commission only has proprietary funds.

Required Financial Statements

The financial statements of the Housing Commission report information of the Commission using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the capital structure of the Commission and assessing the liquidity and financial flexibility of the Commission.

**Eastpointe Housing Commission
(Unaudited)
Management's Discussion and Analysis (MD&A) - Continued**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established *Uniform Financial Reporting Standards* that require Housing Commission's to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended June 30, 2006 and is required to be included in the audit reporting package.

EASTPOINTE HOUSING COMMISSION PROGRAMS

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

Section 8 Housing Choice Voucher Program: Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% of a participant's income.

Eastpointe Housing Commission
(Unaudited)
Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the table on the following page, assets exceeded liabilities by \$4,532,801 at the close of the year ended June 30, 2006 up from \$4,446,203 in 2005. The increase in net assets of \$86,598 was due to the change in net assets for the year.

The unrestricted net assets were \$776,100 as of June 30, 2006. This amount may be used to meet the Commission's ongoing obligations. The Commission had no net assets classified as restricted that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

CONDENSED STATEMENTS OF NET ASSETS
JUNE 30,

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 863,333	\$ 603,449	\$ 259,884	43.1%
Capital assets	<u>3,756,701</u>	<u>3,982,900</u>	<u>(226,199)</u>	-5.7%
Total Assets	<u>4,620,034</u>	<u>4,586,349</u>	<u>33,685</u>	0.7%
Current liabilities	77,771	126,974	(49,203)	-38.8%
Noncurrent liabilities	<u>9,462</u>	<u>13,172</u>	<u>(3,710)</u>	-28.2%
Total Liabilities	<u>87,233</u>	<u>140,146</u>	<u>(52,913)</u>	-37.8%
Net Assets				
Invested in capital assets	3,756,701	3,982,900	(226,199)	-5.7%
Unrestricted	<u>776,100</u>	<u>463,303</u>	<u>312,797</u>	67.5%
Total Net Assets	<u>\$ 4,532,801</u>	<u>\$ 4,446,203</u>	<u>\$ 86,598</u>	1.9%

The largest portion of the Commission's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Commission uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

As can be seen in the table on the following page total revenues and contributions increased by \$155,120 due to increases in rental revenue, HUD operating grants, other income and interest income, which were partially offset by a decrease in capital contribution.

Eastpointe Housing Commission
(Unaudited)
Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30,**

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues and Contributions				
Operating - non-operating -capital contributions:				
Rental revenue	\$ 440,274	\$ 408,877	31,397	7.7%
HUD operating grants	1,273,140	1,069,300	203,840	19.1%
Interest income	10,233	9,284	949	10.2%
Capital Contributions	21,000	109,252	(88,252)	-80.8%
Other income	16,225	9,039	7,186	79.5%
Total Revenues and Contributions	<u>1,760,872</u>	<u>1,605,752</u>	<u>155,120</u>	<u>9.7%</u>
Expenses				
Personal services	327,612	366,709	(39,097)	-10.7%
Utilities	202,470	184,160	18,310	9.9%
Operations and maintenance	101,560	91,539	10,021	10.9%
Non routine maintenance	33,223	8,734	24,489	280.4%
Insurance	30,344	35,607	(5,263)	-14.8%
Other supplies and expenses	60,920	57,947	2,973	5.1%
Housing assistance payments	688,791	725,312	(36,521)	-5.0%
Depreciation	272,103	267,264	4,839	1.8%
Total Expenses	<u>1,717,023</u>	<u>1,737,272</u>	<u>(20,249)</u>	<u>-1.2%</u>
Change in net assets	43,849	(131,520)	175,369	
Beginning net assets	4,446,203	4,577,723	(131,520)	
Prior period adjustments	<u>42,749</u>	<u>----</u>	<u>42,749</u>	
Beginning net assets, adjusted	<u>4,488,952</u>	<u>4,577,723</u>	<u>(88,771)</u>	
Ending net assets	<u>\$ 4,532,801</u>	<u>\$ 4,446,203</u>	<u>\$ 86,598</u>	

Total expenses for the Commission decreased by \$20,249 due to decreases in personal services, insurance and housing assistance payments, which were partially offset by increases in utilities, operations and maintenance, non routine maintenance, other supplies and expenses and depreciation.

During fiscal year ended June 30, 2006, Eastpointe Housing Commission maintained a lease-up rate of 99.3% in its Public Housing Program and a lease-up rate of 90.7% in its Section 8 program. The Public Housing lease-up rate is well in excess of HUD guidelines. The lease-up rate for Section 8 is under the HUD-prescribed target of 97%. We encountered unanticipated delays in getting the new Section 8 units leased up during fiscal year ended June 30, 2006. We have been working diligently to increase our Section 8 lease-up rate and at the time of this report, we are fully leased up.

**Eastpointe Housing Commission
(Unaudited)
Management's Discussion and Analysis (MD&A) - Continued**

CAPITAL ASSETS

Capital Assets - The Eastpointe Housing Commission's investment in capital assets, as of June 30, 2006 amounts to \$3,756,701 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment and construction in progress.

**CAPITAL ASSETS
NET OF ACCUMULATED DEPRECIATION
JUNE 30,**

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>
Land	\$ 239,525	\$ 239,525	\$ ----
Building	3,914,303	3,914,303	----
Furniture, equipment and machinery- dwelling	83,616	83,616	----
Furniture, equipment and machinery- administration	191,212	187,221	3,991
Leasehold improvements	2,578,780	2,557,867	20,913
Construction in progress	<u>21,000</u>	<u>----</u>	<u>21,000</u>
	7,028,436	6,982,532	45,904
Accumulated depreciation	<u>3,271,735</u>	<u>2,999,632</u>	<u>272,103</u>
Total	<u>\$ 3,756,701</u>	<u>\$ 3,982,900</u>	<u>\$ (226,199)</u>

The total decrease in the Commission's capital assets for the current fiscal year was \$226,199 or 5.7% in terms of net book value. Actual expenditures to purchase equipment and construct capital assets were \$45,903 for the year. The Commission has \$408,463 available in Capital Funds to draw down and spend in the future.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Housing Commission is primarily dependent upon HUD for the funding of operations; therefore, the Housing Commission is affected more by the Federal budget than by local economic conditions. The funding of programs could be significantly affected by the 2007 Federal budget.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed Jody L. Wenz, Executive Director; Eastpointe Housing Commission; 15701 E. Nine Mile Rd.; Eastpointe, MI 48021.

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

STATEMENT OF NET ASSETS

June 30, 2006

ASSETS

Current Assets:

Cash and cash equivalents	\$ 464,741.14
Investments	346,539.57
Receivable - net of allowances:	
Accounts	24,555.29
Accrued interest	1,692.50
Prepaid expenses	<u>25,804.32</u>
Total Current Assets	<u>863,332.82</u>

Noncurrent Assets:

Capital assets:

Land, improvements, and construction in progress	260,525.00
Other capital assets, net of depreciation	<u>3,496,175.97</u>
Total capital assets- net	<u>3,756,700.97</u>
Total Noncurrent Assets	<u>3,756,700.97</u>
Total Assets	\$ <u><u>4,620,033.79</u></u>

See notes to financial statements

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

STATEMENT OF NET ASSETS (CONTINUED)

June 30, 2006

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 29,179.48
Accrued salaries, wages and benefits	9,830.52
Accrued compensated absences	1,051.31
Tenant security deposit liability	37,544.03
Deferred revenues	<u>166.00</u>

Total Current Liabilities	<u>77,771.34</u>
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Noncurrent Liabilities:

Accrued compensated absences	<u>9,461.79</u>
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Total Noncurrent Liabilities	<u>9,461.79</u>
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Total Liabilities	<u>87,233.13</u>
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NET ASSETS

Invested in capital assets	3,756,700.97
Unrestricted	<u>776,099.69</u>

Total Net Assets	<u>4,532,800.66</u>
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Total Liabilities and Net Assets	<u>\$ 4,620,033.79</u>
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See notes to financial statements

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For Year Ended June 30, 2006

Operating Revenues:

Rental revenue	\$ 440,274.07
Operating subsidies- HUD grants	1,273,140.00
Other revenues	<u>16,224.88</u>
Total operating revenues	<u>1,729,638.95</u>

Operating Expenses:

Personal services	327,612.21
Utilities	202,469.84
Operations and maintenance	101,560.21
Non routine maintenance	33,223.43
Insurance	30,344.34
Other supplies and expenses	60,920.44
Housing assistance payments	688,790.50
Depreciation	<u>272,102.61</u>
Total operating expenses	<u>1,717,023.58</u>

Operating income (loss)	<u>12,615.37</u>
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Non-operating revenues (expenses):

Interest and investment earnings	<u>10,233.00</u>
Net non-operating revenues (expenses)	<u>10,233.00</u>

Income (loss) before other revenues, expenses, gains, losses and transfers	22,848.37
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Capital contributions	<u>21,000.00</u>
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Change in net assets	43,848.37
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Net assets at beginning of year	4,446,203.29
Prior period error corrections	<u>42,749.00</u>

Net assets adjusted at beginning of year	<u>4,488,952.29</u>
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Net assets at end of year	<u>\$ 4,532,800.66</u>
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See notes to financial statements

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

STATEMENT OF CASH FLOWS

For Year Ended June 30, 2006

Cash flows from operating activities:

Cash received from tenants	\$ 439,876.00
Cash received from HUD grants- operating	1,252,631.83
Cash received from other operating activities	14,673.16
Cash payments for goods and services	(1,118,441.00)
Cash payments to employees-salaries	(252,516.47)
Cash payments for employee benefit contributions	<u>(88,857.10)</u>

Net cash provided (used) by operating activities	<u>247,366.42</u>
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Cash flows from capital and related financing activities:

Capital contributions	32,984.85
Payments for capital assets	<u>(45,903.34)</u>

Net cash (used) for capital and related financing activities	<u>(12,918.49)</u>
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Cash flows from investing activities:

Proceeds from sale of (payments) for investments	(126,574.82)
Interest and dividends	16,075.50
Receipts (payments) from tenant security deposits	<u>164.50</u>

Net cash provided (used) from investing activities	<u>(110,334.82)</u>
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Net increase (decrease) in cash and cash equivalents	124,113.11
Cash and cash equivalents at beginning of year	<u>340,628.03</u>

Cash and cash equivalents at end of year	<u><u>\$ 464,741.14</u></u>
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See notes to financial statements

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

STATEMENT OF CASH FLOWS (CONTINUED)

For Year Ended June 30, 2006

**Reconciliation of operating income (loss) to net cash
provided (used) by operating activities:**

Operating income (loss)	\$ 12,615.37
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	272,102.61
Allowance for doubtful accounts	3,378.43
Changes in assets and liabilities:	
Receivables	(25,846.39)
Prepaid expenses	(4,555.16)
Accounts and other payables	3,422.92
Deferred revenues	10.00
Compensated absences	(4,122.99)
Accrued expenses	<u>(9,638.37)</u>
Net cash provided (used) by operating activities	<u>\$ 247,366.42</u>

See notes to financial statements

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE 1 - Summary of Significant Accounting Policies

The Eastpointe Housing Commission (Commission) is a non-profit entity established to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal agencies.

The Housing Commission complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Housing Commission the option of electing to apply FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict a GASB pronouncement. The Housing Commission has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1a. Financial Reporting Entity

The Housing Commission's financial reporting entity comprises the following:

Primary Government:	Housing Commission
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In determining the financial reporting entity, the Housing Commission complies with the provisions of GASB Statement No. 14 as amended by GASB no 39, "The Financial Reporting Entity," and includes all component units, if any, of which the Housing Commission appointed a voting majority of the units' board; the Housing Commission is either able to impose its will on the unit or a financial benefit or burden relationship exists. There are no agencies, organizations or activities meeting this criteria.

1b. Basis of Presentation

Financial statements of the reporting entity's programs are organized and reported as an enterprise fund and are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Enterprise funds are used to account for business-like activities provided to its tenants. These activities are financed primarily by user charges and/or Federal funding and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes all of the Commission's programs as an enterprise fund.

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1b. Basis of Presentation (Continued)

Following is a description of the Commission's programs:

Program	Brief Description
Low Rent	Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units.
Housing Choice Vouchers	Accounts for activities of the Voucher program which assists very low-income families, the elderly, and the disabled to afford decent, safe and sanitary housing in the private market.
Capital Fund Program	Accounts for activities of the Capital Fund which provides funds to housing authorities to modernize public housing developments.

1c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the financial statements, the "economic resources" measurement focus is used as follows:

- ▶ The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the financial statements, the proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1d. Assets, Liabilities, and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2b. and 3a.

Interprogram Receivables and Payables

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. Offsetting interprograms are eliminated for financial statement presentation.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Tenant accounts receivable, accrued interest receivable and accounts receivable from U.S. Department of Housing and Urban Development compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Budgets and Budgetary Accounting

The Commission adopts a formal operating budget each year for its operating programs and on a project length basis for its capital expenditures which are approved by the Board of Commissioners and submitted to the Department of Housing and Urban Development for their approval, if required.

Estimates and Assumptions

The Commission uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1d. Assets, Liabilities, and Equity (Continued)

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$1,000.00 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense depending on the program where the asset is shown, in the Statement of Revenues, Expenses and Changes in Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	40	years
Furniture, equipment and machinery - dwelling	7	years
Furniture, equipment and machinery - administration	3 - 7	years
Leasehold improvements	15	years

Compensated Absences

The Housing Commission's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Equity Classifications

Equity is classified as net assets and displayed in two components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Commission had no related debt.
- b. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1e. Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Non-operating revenues and expenses are those that are not operating in nature.

Interfund Transfers

For the purposes of the Statement of Revenues, Expenses and Change in Net Assets, all interfund transfers between individual programs, if any, have been eliminated.

NOTE 2 - Stewardship, Compliance, and Accountability

The Commission and its component units, if any, are subject to various federal, state, and local laws and contractual regulations. An analysis of the Commission's compliance with significant laws and regulations and demonstration of its stewardship over Commission resources follows.

2a. Program Accounting Requirements

The Commission's complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Commission are as follows:

Program	Required By
Public and Indian Housing	U.S. Department of Housing and Urban Development
Housing Choice Vouchers	U.S. Department of Housing and Urban Development
Capital Fund Program	U.S. Department of Housing and Urban Development

2b. Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of the Commission in financial institutions must be secured with acceptable collateral valued at the lower of market or par. All financial institutions pledging collateral to the Commission must have a written collateral agreement. As reflected in Note 3a., all deposits were fully insured or collateralized.

Investments of the Commission are limited by state law to the following:

- a. Direct obligations of the U.S. Government or its agencies or instrumentalities to which acceptable collateral is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 2 - Stewardship, Compliance, and Accountability (Continued)

2c. Revenue Restrictions

The Commission has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

<i>Revenue Source</i>	<i>Legal Restrictions of Use</i>
Capital Fund Program	Modernization

For the year ended June 30, 2006, the Commission complied, in all material respects, with these revenue restrictions.

NOTE 3 - Detail Notes on Transaction Classes/Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3a. Cash and Investments

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it or the Commission will not be able to recover collateral securities in the possession of an outside party. As of June 30, 2006, the Commission's bank balances of \$482,202.31, were insured by federal depository insurance or collateralized with securities held by the pledging financial institutions in the Commission's name.

Investments

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2006, the Commission's investments were \$346,539.57. These investments were insured by federal depository insurance or registered, or securities held by the Commission or its agent in the Commission's name.

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3a. Cash and Investments (Continued)

Investments (Continued)

Credit Risk Investments, Concentrations of Credit Risk and Interest Rate Risk - Investments:

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commission will minimize credit risk by reviewing the financial institutions with which the Commission will do business so that potential losses on individual securities will be minimized.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Commission has chosen to invest in longer term investments to secure current interest rates and avoid possible future decreases.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer. The Commission does not have a written investment policy covering concentration of credit risk.

3b. Accounts Receivable

Receivables detail at June 30, 2006, is as follows:

Tenant accounts receivable	\$	1,661.55	
Allowance for doubtful accounts - tenant account receivable		<u>(166.15)</u>	
Tenants accounts receivable - net			1,495.40
Fraud recovery		4,764.00	
Allowance for doubtful accounts - fraud recovery		<u>(3,212.28)</u>	
Fraud recovery - net			1,551.72
Accounts receivable - HUD			<u>21,508.17</u>
			<u>\$ 24,555.29</u>

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3c. Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	(Retirements)	Balance June 30, 2006
Land	\$ 239,525.00	\$ -----	\$ -----	\$ 239,525.00
Building	3,914,303.43	-----	-----	3,914,303.43
Furniture, equipment and machinery- dwelling	83,616.00	-----	-----	83,616.00
Furniture, equipment and machinery- administration	187,220.88	3,991.34	-----	191,212.22
Leasehold improvements	2,557,867.42	20,912.00	-----	2,578,779.42
Construction in progress	-----	21,000.00	-----	21,000.00
	6,982,532.73	<u>\$ 45,903.34</u>	<u>\$ -----</u>	7,028,436.07
Accumulated depreciation	2,999,632.49	<u>\$ 272,102.61</u>	<u>\$ -----</u>	3,271,735.10
Total	<u>\$ 3,982,900.24</u>			<u>\$ 3,756,700.97</u>

3d. Accounts Payable

Payable detail at June 30, 2006, is as follows:

Accounts payable - vendors	\$ 11,641.60
Accrued liabilities - other	<u>17,537.88</u>
	<u>\$ 29,179.48</u>

3e. Compensated Absences

Accumulated unpaid compensated absences are accrued. The liability for compensated absences at June 30, 2006 is \$10,513.10.

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3f. Non-current Liabilities

As of June 30, 2006, the non-current liabilities are comprised of the following:

Accrued compensated absences - non current portion	\$ <u>9,461.79</u>
Total	\$ <u><u>9,461.79</u></u>

The following is a summary of changes in non-current liabilities for the year ended June 30, 2006:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>	<u>Amounts Due within One Year</u>
Accrued compensated absences	\$ <u>13,172.49</u>	\$ <u>----</u>	\$ <u>3,710.70</u>	\$ <u>9,461.79</u>	\$ <u>1,051.31</u>
Total	\$ <u><u>13,172.49</u></u>	\$ <u><u>----</u></u>	\$ <u><u>3,710.70</u></u>	\$ <u><u>9,461.79</u></u>	\$ <u><u>1,051.31</u></u>

3g. Interprogram Transactions and Balances

Interprogram Receivable/Payable

Public and Indian Housing - Low Rent	\$ 93,210.84
Housing Choice Vouchers	(92,210.84)
Capital Fund Program	<u>(1,000.00)</u>
Total	\$ <u><u>----</u></u>

3h. Unrestricted net assets - Prior-period Error Corrections

Following is the composite of error corrections:

1. Accounts payable - HUD - correct FY 2005 per HUD settlement	\$ <u>42,749.00</u>
Totals	\$ <u><u>42,749.00</u></u>

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 4 - Other Notes

4a. Employee Retirement Plan

A defined benefit retirement plan specifies the amount of retirement benefit based on a formula that takes into account the years of employment, highest final average compensation and a pension "multiplier". In this plan, the retiree's monthly benefit is not dependent upon investment performance. Benefits vest after ten years of service. The Housing Commission contributed 8.5 percent of covered payroll.

For the year ended June 30, 2006, the following amounts related to the defined contribution plan:

Commission total payroll	\$ 242,878.10
Payroll for covered employees	\$ 207,674.82
Employer (Commission) contributions made	\$ 17,652.36

4b. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The Commission manages these various risks of loss as follows:

Type of Loss	Method Managed
a. Torts, errors and omissions	Purchased insurance with Housing Authority Risk Retention Group, Inc.
b. Injuries to employees (workers' compensation)	Purchased insurance with Accident Fund Insurance Company of America; Claims are administered by Accident Fund Insurance Company of America.
c. Physical property loss and natural disasters	Purchased commercial insurance with \$5,000.00 deductibles.
d. Health and life	Purchased health insurance with Blue Cross and Blue Shield of Michigan; Life insurance is provided by First Penn Pacific Life Insurance Company

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 4 - Other Notes (Continued)

4c. Commitments and Contingencies

Commitments—Construction

At June 30, 2006, the Commission had the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended - Project to Date</u>
CFP 501-04	\$ 191,773.00	\$ 137,873.14
CFP 501-05	184,830.00	21,000.00
CFP 501-06	<u>191,733.00</u>	<u>1,000.00</u>
	\$ <u><u>568,336.00</u></u>	\$ <u><u>159,873.14</u></u>

Contingencies

The Commission is subject to possible examination by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to the Commission in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

COMBINING STATEMENT OF NET ASSETS BY PROGRAM

June 30, 2006

	<u>Low Rent Program</u>	<u>Housing Choice Vouchers</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 87,199.37	\$ 377,541.77
Investments	346,539.57	-----
Receivable - net of allowances:		
Accounts	23,555.29	-----
Accrued interest	1,692.50	-----
Due from (to) interprogram	93,210.84	(92,210.84)
Prepaid expenses	<u>25,804.32</u>	<u>-----</u>
Total Current Assets	<u>578,001.89</u>	<u>285,330.93</u>
Noncurrent Assets:		
Capital assets:		
Land, improvements, and construction in progress	239,525.00	-----
Other capital assets, net of depreciation	<u>3,402,999.83</u>	<u>-----</u>
Total capital assets- net	<u>3,642,524.83</u>	<u>-----</u>
Total Noncurrent Assets	<u>3,642,524.83</u>	<u>-----</u>
Total Assets	<u>\$ 4,220,526.72</u>	<u>\$ 285,330.93</u>

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

COMBINING STATEMENT OF NET ASSETS BY PROGRAM (CONTINUED)

June 30, 2006

	<u>Low Rent Program</u>	<u>Housing Choice Vouchers</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 28,259.48	\$ 920.00
Accrued salaries, wages and benefits	9,830.52	-----
Accrued compensated absences	1,051.31	-----
Tenant security deposit liability	37,544.03	-----
Deferred revenues	<u>166.00</u>	<u>-----</u>
Total Current Liabilities	<u>76,851.34</u>	<u>920.00</u>
Noncurrent Liabilities:		
Accrued compensated absences	<u>9,461.79</u>	<u>-----</u>
Total Noncurrent Liabilities	<u>9,461.79</u>	<u>-----</u>
Total Liabilities	<u>86,313.13</u>	<u>920.00</u>
NET ASSETS		
Invested in capital assets	3,642,524.83	-----
Unrestricted	<u>491,688.76</u>	<u>284,410.93</u>
Total Net Assets	<u>4,134,213.59</u>	<u>284,410.93</u>
Total Liabilities and Net Assets	<u>\$ 4,220,526.72</u>	<u>\$ 285,330.93</u>

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

COMBINING STATEMENT OF NET ASSETS BY PROGRAM (CONTINUED)

June 30, 2006

	Capital Fund Program	Totals
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ -----	\$ 464,741.14
Investments	-----	346,539.57
Receivable - net of allowances:		
Accounts	1,000.00	24,555.29
Accrued interest	-----	1,692.50
Due from (to) interprogram	(1,000.00)	-----
Prepaid expenses	-----	25,804.32
	<u>-----</u>	<u>25,804.32</u>
Total Current Assets	<u>-----</u>	<u>863,332.82</u>
Noncurrent Assets:		
Capital assets:		
Land, improvements, and construction in progress	21,000.00	260,525.00
Other capital assets, net of depreciation	<u>93,176.14</u>	<u>3,496,175.97</u>
	<u>114,176.14</u>	<u>3,756,700.97</u>
Total capital assets- net	<u>114,176.14</u>	<u>3,756,700.97</u>
Total Noncurrent Assets	<u>114,176.14</u>	<u>3,756,700.97</u>
Total Assets	<u>\$ 114,176.14</u>	<u>\$ 4,620,033.79</u>

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

COMBINING STATEMENT OF NET ASSETS BY PROGRAM (CONTINUED)

June 30, 2006

	<u>Capital Fund Program</u>	<u>Totals</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ -----	\$ 29,179.48
Accrued salaries, wages and benefits	-----	9,830.52
Accrued compensated absences	-----	1,051.31
Tenant security deposit liability	-----	37,544.03
Deferred revenues	-----	166.00
	<u>-----</u>	<u>-----</u>
Total Current Liabilities	-----	77,771.34
Noncurrent Liabilities:		
Accrued compensated absences	-----	9,461.79
	<u>-----</u>	<u>-----</u>
Total Noncurrent Liabilities	-----	9,461.79
	<u>-----</u>	<u>-----</u>
Total Liabilities	-----	87,233.13
NET ASSETS		
Invested in capital assets	114,176.14	3,756,700.97
Unrestricted	-----	776,099.69
	<u>-----</u>	<u>-----</u>
Total Net Assets	114,176.14	4,532,800.66
	<u>-----</u>	<u>-----</u>
Total Liabilities and Net Assets	\$ <u>114,176.14</u>	\$ <u>4,620,033.79</u>

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS BY PROGRAM

For Year Ended June 30, 2006

	Low Rent Program	Housing Choice Vouchers
Operating Revenues:		
Rental revenue	\$ 440,274.07	\$ -----
Operating subsidies- HUD grants	243,028.00	1,029,112.00
Other revenues	<u>14,640.38</u>	<u>1,584.50</u>
Total operating revenues	<u>697,942.45</u>	<u>1,030,696.50</u>
Operating Expenses:		
Personal services	246,028.41	81,583.80
Utilities	202,469.84	-----
Operations and maintenance	101,560.21	-----
Non routine maintenance	33,223.43	-----
Insurance	30,344.34	-----
Other supplies and expenses	38,792.33	21,128.11
Housing assistance payments	-----	688,790.50
Depreciation	<u>263,384.61</u>	<u>-----</u>
Total operating expenses	<u>915,803.17</u>	<u>791,502.41</u>
Operating income (loss)	<u>(217,860.72)</u>	<u>239,194.09</u>
Non-operating revenues (expenses):		
Interest and investment earnings	<u>9,727.83</u>	<u>505.17</u>
Net non-operating revenues (expenses)	<u>9,727.83</u>	<u>505.17</u>
Change in net assets	(208,132.89)	239,699.26
Net assets at beginning of year	4,311,000.79	1,962.67
Prior period error corrections	<u>-----</u>	<u>42,749.00</u>
Net assets adjusted at beginning of year	4,311,000.79	44,711.67
Equity transfers	<u>31,345.69</u>	<u>-----</u>
Net assets at end of year	<u>\$ 4,134,213.59</u>	<u>\$ 284,410.93</u>

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

**COMBINING STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN FUND NET ASSETS BY PROGRAM (CONTINUED)**

For Year Ended June 30, 2006

	Capital Fund Program	Totals
Operating Revenues:		
Rental revenue	\$ -----	\$ 440,274.07
Operating subsidies- HUD grants	1,000.00	1,273,140.00
Other revenues	-----	16,224.88
Total operating revenues	1,000.00	1,729,638.95
Operating Expenses:		
Personal services	-----	327,612.21
Utilities	-----	202,469.84
Operations and maintenance	-----	101,560.21
Non routine maintenance	-----	33,223.43
Insurance	-----	30,344.34
Other supplies and expenses	1,000.00	60,920.44
Housing assistance payments	-----	688,790.50
Depreciation	8,718.00	272,102.61
Total operating expenses	9,718.00	1,717,023.58
Operating income (loss)	(8,718.00)	12,615.37
Non-operating revenues (expenses):		
Interest and investment earnings	-----	10,233.00
Net non-operating revenues (expenses)	-----	10,233.00
Income (loss) before other revenues, expenses, gains, losses and transfers	(8,718.00)	22,848.37
Capital contributions	21,000.00	21,000.00
Change in net assets	12,282.00	43,848.37
Net assets at beginning of year	133,239.83	4,446,203.29
Prior period error corrections	-----	42,749.00
Net assets adjusted at beginning of year	133,239.83	4,488,952.29
Equity transfers	(31,345.69)	-----
Net assets at end of year	\$ 114,176.14	\$ 4,532,800.66

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM

For Year Ended June 30, 2006

	Low Rent Program	Housing Choice Vouchers
Cash flows from operating activities:		
Cash received from tenants	\$ 439,876.00	\$ -----
Cash received from HUD grants- operating	222,519.83	1,029,112.00
Cash received from other operating activities	13,088.66	1,584.50
Cash payments for goods and services	(408,002.39)	(709,438.61)
Cash payments to employees-salaries	(195,932.67)	(56,583.80)
Cash payments for employee benefit contributions	<u>(63,857.10)</u>	<u>(25,000.00)</u>
Net cash provided (used) by operating activities	<u>7,692.33</u>	<u>239,674.09</u>
Cash flows from noncapital financing activities:		
Receipts (payments) from interprograms	<u>(65,077.07)</u>	<u>65,077.07</u>
Net cash provided (used) from non capital financing activities	<u>(65,077.07)</u>	<u>65,077.07</u>
Cash flows from capital and related financing activities:		
Receipts (payments) from interprograms	11,984.85	-----
Payments for capital assets	<u>(24,903.34)</u>	<u>-----</u>
Net cash (used) for capital and related financing activities	<u>(12,918.49)</u>	<u>-----</u>
Cash flows from investing activities:		
Proceeds from sale of (payments) for investments	(126,574.82)	-----
Interest and dividends	15,570.33	505.17
Receipts (payments) from tenant security deposits	<u>164.50</u>	<u>-----</u>
Net cash provided (used) from investing activities	<u>(110,839.99)</u>	<u>505.17</u>
Net increase (decrease) in cash and cash equivalents	(181,143.22)	305,256.33
Cash and cash equivalents at beginning of year	<u>268,342.59</u>	<u>72,285.44</u>
Cash and cash equivalents at end of year	<u>\$ 87,199.37</u>	<u>\$ 377,541.77</u>

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM (CONTINUED)

For Year Ended June 30, 2006

	<u>Low Rent Program</u>	<u>Housing Choice Vouchers</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (217,860.72)	\$ 239,194.09
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	263,384.61	-----
Allowance for doubtful accounts	3,378.43	-----
Changes in assets and liabilities:		
Receivables	(25,846.39)	-----
Prepaid expenses	(4,555.16)	-----
Accounts and other payables	2,942.92	480.00
Deferred revenues	10.00	-----
Compensated absences	(4,122.99)	-----
Accrued expenses	<u>(9,638.37)</u>	<u>-----</u>
Net cash provided (used) by operating activities	<u>\$ 7,692.33</u>	<u>\$ 239,674.09</u>

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM (CONTINUED)

For Year Ended June 30, 2006

	Capital Fund Program	Totals
Cash flows from operating activities:		
Cash received from tenants	\$ -----	\$ 439,876.00
Cash received from HUD grants- operating	1,000.00	1,252,631.83
Cash received from other operating activities	-----	14,673.16
Cash payments for goods and services	(1,000.00)	(1,118,441.00)
Cash payments to employees-salaries	-----	(252,516.47)
Cash payments for employee benefit contributions	-----	(88,857.10)
	<u>-----</u>	<u>-----</u>
Net cash provided (used) by operating activities	-----	247,366.42
Cash flows from capital and related financing activities:		
Capital contributions	32,984.85	32,984.85
Receipts (payments) from interprograms	(11,984.85)	-----
Payments for capital assets	(21,000.00)	(45,903.34)
	<u>-----</u>	<u>-----</u>
Net cash (used) for capital and related financing activities	-----	(12,918.49)
Cash flows from investing activities:		
Proceeds from sale of (payments) for investments	-----	(126,574.82)
Interest and dividends	-----	16,075.50
Receipts (payments) from tenant security deposits	-----	164.50
	<u>-----</u>	<u>-----</u>
Net cash provided (used) from investing activities	-----	(110,334.82)
Net increase (decrease) in cash and cash equivalents	-----	124,113.11
Cash and cash equivalents at beginning of year	-----	340,628.03
	<u>-----</u>	<u>-----</u>
Cash and cash equivalents at end of year	\$ -----	\$ 464,741.14

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM (CONTINUED)

For Year Ended June 30, 2006

	<u>Capital Fund Program</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (8,718.00)	\$ 12,615.37
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	8,718.00	272,102.61
Allowance for doubtful accounts	-----	3,378.43
Changes in assets and liabilities:		
Receivables	-----	(25,846.39)
Prepaid expenses	-----	(4,555.16)
Accounts and other payables	-----	3,422.92
Deferred revenues	-----	10.00
Compensated absences	-----	(4,122.99)
Accrued expenses	-----	(9,638.37)
	<u>-----</u>	<u>-----</u>
Net cash provided (used) by operating activities	\$ <u>-----</u>	\$ <u>247,366.42</u>

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
NOTES TO THE SCHEDULE OF FEDERAL AWARDS**

Year Ended June 30, 2006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Fiscal Year</u>	<u>Federal Grantor</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2006	Low Rent Program	14.850a	\$ <u>243,028.00</u>
	<u>Low Income Public Housing Major - Direct Program</u>		
2006	Housing Choice Vouchers	14.871	\$ <u>1,029,112.00</u>
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2006	Capital Fund program	14.872	\$ <u>22,000.00</u>
	Total		\$ <u>1,294,140.00</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1 - Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

FINANCIAL DATA SCHEDULE

Year Ended June 30, 2006

FDS Line Item No.	Low Rent Program 14.850a	Housing Choice Vouchers 14.871
Assets:		
Current Assets:		
Cash		
111 Cash-unrestricted	\$ 87,199.37	\$ 377,541.77
100 Total cash	<u>87,199.37</u>	<u>377,541.77</u>
Accounts and notes receivable:		
122 Accounts receivable-HUD	20,508.17	----
126 Accounts receivable- tenants-dwelling rents	1,661.55	----
126.1 Allowance for doubtful accounts-dwelling rents	(166.15)	----
128 Fraud recovery	4,764.00	----
128.1 Allowance for doubtful accounts-fraud	(3,212.28)	----
129 Accrued interest receivable	<u>1,692.50</u>	<u>----</u>
120 Total receivables, net of allowance for doubtful accounts	<u>25,247.79</u>	<u>----</u>
Current investments:		
131 Investments-unrestricted	346,539.57	----
142 Prepaid expenses and other assets	25,804.32	----
144/		
(347) Interprogram due from	<u>93,210.84</u>	<u>(92,210.84)</u>
150 Total current assets	<u>578,001.89</u>	<u>285,330.93</u>
Noncurrent Assets:		
Fixed assets:		
161 Land	239,525.00	----
162 Buildings	3,914,303.43	----
163 Furniture, equipment and machinery-dwellings	83,616.00	----
164 Furniture, equipment and machinery-administration	181,050.53	----
165 Leasehold improvements	2,483,067.97	----
166 Accumulated depreciation	<u>(3,259,038.10)</u>	<u>----</u>
160 Total fixed assets, net of accumulated depreciation	<u>3,642,524.83</u>	<u>----</u>
180 Total noncurrent assets	<u>3,642,524.83</u>	<u>----</u>
190 Total Assets	<u>\$ 4,220,526.72</u>	<u>\$ 285,330.93</u>

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2006

FDS Line Item No.		Low Rent Program 14.850a	Housing Choice Vouchers 14.871
	Liabilities and Equity:		
	Liabilities:		
	Current Liabilities:		
312	Accounts payable < 90 days	\$ (10,721.60)	\$ (920.00)
321	Accrued wage / payroll taxes payable	(9,830.52)	----
322	Accrued compensated absences- current portion	(1,051.31)	----
341	Tenant security deposits	(37,544.03)	----
342	Deferred revenues	(166.00)	----
346	Accrued liabilities-other	(17,537.88)	----
310	Total current liabilities	(76,851.34)	(920.00)
	Noncurrent Liabilities:		
354	Accrued compensated absences- non current portion	(9,461.79)	----
350	Total noncurrent liabilities	(9,461.79)	----
300	Total liabilities	(86,313.13)	(920.00)
	Equity:		
508.1	Investment in capital assets , Net of Related Debt	(3,642,524.83)	----
512.1	Unrestricted Net Assets	(491,688.76)	(284,410.93)
600	Total Liabilities and Equity	\$ (4,220,526.72)	\$ (285,330.93)
	Revenue:		
703	Net rental revenue	\$ (438,974.00)	\$ ----
704	Tenant revenue-other	(4,771.00)	----
705	Total tenant revenue	(443,745.00)	----
706	HUD PHA operating grants	(243,028.00)	(1,029,112.00)
711	Investment income-unrestricted	(9,727.83)	(505.17)
714	Fraud recovery	----	(1,584.50)
715	Other revenue	(14,640.38)	----
700	Total revenue	(711,141.21)	(1,031,201.67)

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2006

FDS Line Item No.		Low Rent Program 14.850a	Housing Choice Vouchers 14.871
	Expenses:		
	Administrative		
911	Administrative salaries	93,071.20	56,583.80
912	Auditing fees	3,550.00	----
914	Compensated absences	(4,122.99)	----
915	Employee benefit contributions-administrative	31,928.00	25,000.00
916	Other operating-administrative	29,190.01	21,128.11
	Tenant services		
924	Tenant services-other	6,052.32	----
	Utilities		
931	Water	29,412.54	----
932	Electricity	96,659.43	----
933	Gas	76,397.87	----
	Ordinary maintenance and operation		
941	Ordinary maintenance and operation-labor	93,223.10	----
942	Ordinary maintenance and operation-materials & other	25,927.16	----
943	Ordinary maintenance and operation-contract costs	75,633.05	----
945	Employee benefit contributions-ordinary maintenance	31,929.10	----
	General expenses		
961	Insurance premiums	30,344.34	----
964	Bad debts- tenant rents	3,470.93	----
969	Total operating expenses	<u>622,666.06</u>	<u>102,711.91</u>

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2006

FDS Line Item No.		Low Rent Program 14.850a	Housing Choice Vouchers 14.871
970	Excess (deficit) operating revenue over operating expenses	<u>88,475.15</u>	<u>928,489.76</u>
971	Extraordinary maintenance	29,003.43	-----
972	Casualty losses-non capitalized	4,220.00	-----
973	Housing assistance payments	-----	688,790.50
974	Depreciation expense	<u>263,384.61</u>	<u>-----</u>
	Total expenses other than total operating	<u>296,608.04</u>	<u>688,790.50</u>
1000	Excess (deficit) of revenue over expenses before operating transfers in (out) and depreciation add back	<u>(208,132.89)</u>	<u>239,699.26</u>
	Excess (deficit) of revenue over expenses after operating transfers in (out) and depreciation add back	<u>\$ (208,132.89)</u>	<u>\$ 239,699.26</u>

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2006

FDS Line Item No.	Capital Fund Program 14.872	Total
Assets:		
Current Assets:		
Cash		
111 Cash-unrestricted	\$ -----	\$ 464,741.14
100 Total cash	-----	464,741.14
Accounts and notes receivable:		
122 Accounts receivable-HUD	1,000.00	21,508.17
126 Accounts receivable- tenants-dwelling rents	-----	1,661.55
126.1 Allowance for doubtful accounts-dwelling rents	-----	(166.15)
128 Fraud recovery	-----	4,764.00
128.1 Allowance for doubtful accounts-fraud	-----	(3,212.28)
129 Accrued interest receivable	-----	1,692.50
120 Total receivables, net of allowance for doubtful accounts	1,000.00	26,247.79
Current investments:		
131 Investments-unrestricted	-----	346,539.57
142 Prepaid expenses and other assets	-----	25,804.32
144/ (347) Interprogram due from	(1,000.00)	-----
150 Total current assets	-----	863,332.82

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2006

FDS Line Item No.		Capital Fund Program 14.872	Total
	Noncurrent Assets:		
	Fixed assets:		
161	Land	-----	239,525.00
162	Buildings	-----	3,914,303.43
163	Furniture, equipment and machinery-dwellings	-----	83,616.00
164	Furniture, equipment and machinery-administration	10,161.69	191,212.22
165	Leasehold improvements	95,711.45	2,578,779.42
166	Accumulated depreciation	(12,697.00)	(3,271,735.10)
167	Construction in progress	<u>21,000.00</u>	<u>21,000.00</u>
160	Total fixed assets, net of accumulated depreciation	<u>114,176.14</u>	<u>3,756,700.97</u>
180	Total noncurrent assets	<u>114,176.14</u>	<u>3,756,700.97</u>
190	Total Assets	<u>\$ 114,176.14</u>	<u>\$ 4,620,033.79</u>
	Liabilities and Equity:		
	Liabilities:		
	Current Liabilities:		
312	Accounts payable < 90 days	\$ -----	\$ (11,641.60)
321	Accrued wage / payroll taxes payable	-----	(9,830.52)
322	Accrued compensated absences- current portion	-----	(1,051.31)
341	Tenant security deposits	-----	(37,544.03)
342	Deferred revenues	-----	(166.00)
346	Accrued liabilities-other	<u>-----</u>	<u>(17,537.88)</u>
310	Total current liabilities	<u>-----</u>	<u>(77,771.34)</u>
	Noncurrent Liabilities:		
354	Accrued compensated absences- non current portion	<u>-----</u>	<u>(9,461.79)</u>
350	Total noncurrent liabilities	<u>-----</u>	<u>(9,461.79)</u>
300	Total liabilities	<u>-----</u>	<u>(87,233.13)</u>

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2006

FDS Line Item No.	Capital Fund Program 14.872	Total
Equity:		
508.1 Investment in capital assets , Net of Related Debt	(114,176.14)	(3,756,700.97)
512.1 Unrestricted Net Assets	----	(776,099.69)
600 Total Liabilities and Equity	\$ (114,176.14)	\$ (4,620,033.79)
Revenue:		
703 Net rental revenue	\$ -----	\$ (438,974.00)
704 Tenant revenue-other	-----	(4,771.00)
705 Total tenant revenue	-----	(443,745.00)
706 HUD PHA operating grants	(1,000.00)	(1,273,140.00)
706.1 HUD PHA capital grants	(21,000.00)	(21,000.00)
711 Investment income-unrestricted	-----	(10,233.00)
714 Fraud recovery	-----	(1,584.50)
715 Other revenue	-----	(14,640.38)
700 Total revenue	(22,000.00)	(1,764,342.88)
Expenses:		
Administrative		
911 Administrative salaries	-----	149,655.00
912 Auditing fees	-----	3,550.00
914 Compensated absences	-----	(4,122.99)
915 Employee benefit contributions-administrative	-----	56,928.00
916 Other operating-administrative	1,000.00	51,318.12
Tenant services		
924 Tenant services-other	-----	6,052.32
Utilities		
931 Water	-----	29,412.54
932 Electricity	-----	96,659.43
933 Gas	-----	76,397.87

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2006

FDS Line Item No.	Capital Fund Program 14.872	Total
Ordinary maintenance and operation		
941 Ordinary maintenance and operation-labor	-----	93,223.10
942 Ordinary maintenance and operation-materials & other	-----	25,927.16
943 Ordinary maintenance and operation-contract costs	-----	75,633.05
945 Employee benefit contributions-ordinary maintenance	-----	31,929.10
General expenses		
961 Insurance premiums	-----	30,344.34
964 Bad debts- tenant rents	-----	3,470.93
969 Total operating expenses	<u>1,000.00</u>	<u>726,377.97</u>
970 Excess (deficit) operating revenue over operating expenses	<u>21,000.00</u>	<u>1,037,964.91</u>
971 Extraordinary maintenance	-----	29,003.43
972 Casualty losses-non capitalized	-----	4,220.00
973 Housing assistance payments	-----	688,790.50
974 Depreciation expense	<u>8,718.00</u>	<u>272,102.61</u>
Total expenses other than total operating	<u>8,718.00</u>	<u>994,116.54</u>
Excess (deficit) of revenue over expenses before operating transfers in (out) and depreciation add back	<u>12,282.00</u>	<u>43,848.37</u>
Excess (deficit) of revenue over expenses after operating transfers in (out) and depreciation add back	<u>\$ 12,282.00</u>	<u>\$ 43,848.37</u>

Khan & Co. LLC

**Report on Compliance and on Internal Control Over Financial Reporting Based
on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Board of Commissioners
Eastpointe Housing Commission
Eastpointe, Michigan

We have audited the financial statements of the Eastpointe Housing Commission, Michigan, (Commission) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

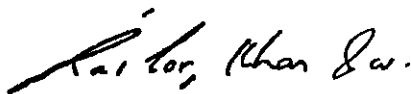
Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Eastpointe Housing Commission, Michigan's management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Sailor, Khan & Co. LLC
November 29, 2006

Khan & Co. LLC**Report on Compliance with Requirements Applicable to Each Major Program and
Internal Control over Compliance in Accordance with OMB Circular A-133**

Board of Commissioners
Eastpointe Housing Commission
Eastpointe, Michigan

Compliance

We have audited the compliance of the Eastpointe Housing Commission, Michigan, (Commission) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission compliance with those requirements.

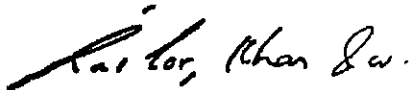
In our opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Eastpointe Housing Commission, Michigan's management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Sailor, Khan & Co. LLC
November 29, 2006

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

STATUS OF PRIOR AUDIT FINDINGS

June 30, 2006

The prior audit report for the year ended June 30, 2005 contained no audit findings.

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2006

SECTION I - SUMMARY OF AUDITOR RESULTS

Financial Statement:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
▶ Material weakness(es) identified?	No
▶ Reportable condition(s) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No
Is a "going concern" explanatory paragraph included in audit report?	No

Federal Awards:

Internal control over major programs:	
▶ Material weakness(es) identified?	No
▶ Reportable condition(s) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) on Circular A-133?	No
Identification of major programs:	

CFDA

Number(s) Name of Federal Program

14-871 Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

EASTPOINTE HOUSING COMMISSION

Eastpointe, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS

The current audit report for the year ended June 30, 2006 disclosed no Financial Statement audit findings.

SECTION III - FEDERAL AWARD FINDINGS

The current audit report for the year ended June 30, 2006 disclosed no Federal Awards audit findings.

QUESTIONED COSTS

None

Eastpointe Housing Commission

Management's Discussion and Analysis (MD&A)

June 30, 2006

(Unaudited)

This section of the Eastpointe Housing Commission (Commission) annual financial report presents our management's discussion and analysis of the Commission's financial performance during the fiscal year ended on June 30, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

For accounting purposes, the Housing Commission is classified as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

FINANCIAL HIGHLIGHTS

The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of June 30, 2006 were \$4,532,801. The net assets increased by \$86,598, an increase of 1.9% over the prior year.

Revenues and contributions for the Commission were \$1,760,872 for the year ended June 30, 2006. This was an increase of \$155,120 or 9.7% from the prior year.

Expenses for the Commission were \$1,717,023 for the year ended June 30, 2006. This was a decrease of \$20,249 or 1.2% from the prior year.

HUD operating grants were \$1,273,140 for the year ended June 30, 2006. This was an increase of \$203,840 or 19.1% over the prior year. Capital contributions for the Commission were \$21,000 for the year ended June 30, 2006. This was a decrease of \$88,252 or 80.8% over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this *Management Discussion and Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the *Financial Data Schedule (FDS)* as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund level financial statements because the Commission only has proprietary funds.

Required Financial Statements

The financial statements of the Housing Commission report information of the Commission using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the capital structure of the Commission and assessing the liquidity and financial flexibility of the Commission.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established *Uniform Financial Reporting Standards* that require Housing Commission's to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended June 30, 2006 and is required to be included in the audit reporting package.

EASTPOINTE HOUSING COMMISSION PROGRAMS

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

Section 8 Housing Choice Voucher Program: Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% of a participant's income.

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the table on the following page, assets exceeded liabilities by \$4,532,801 at the close of the year ended June 30, 2006 up from \$4,446,203 in 2005. The increase in net assets of \$86,598 was due to the change in net assets for the year.

The unrestricted net assets were \$776,100 as of June 30, 2006. This amount may be used to meet the Commission's ongoing obligations. The Commission had no net assets classified as restricted that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

CONDENSED STATEMENTS OF NET ASSETS JUNE 30,

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 863,333	\$ 603,449	\$ 259,884	43.1%
Capital assets	<u>3,756,701</u>	<u>3,982,900</u>	<u>(226,199)</u>	<u>-5.7%</u>
Total Assets	<u>4,620,034</u>	<u>4,586,349</u>	<u>33,685</u>	<u>0.7%</u>
Current liabilities	<u>77,771</u>	<u>126,974</u>	<u>(49,203)</u>	<u>-38.8%</u>
Noncurrent liabilities	<u>9,462</u>	<u>13,172</u>	<u>(3,710)</u>	<u>-28.2%</u>
Total Liabilities	<u>87,233</u>	<u>140,146</u>	<u>(52,913)</u>	<u>-37.8%</u>
Net Assets				
Invested in capital assets	3,756,701	3,982,900	(226,199)	-5.7%
Unrestricted	<u>776,100</u>	<u>463,303</u>	<u>312,797</u>	<u>67.5%</u>
Total Net Assets	<u>\$ 4,532,801</u>	<u>\$ 4,446,203</u>	<u>\$ 86,598</u>	<u>1.9%</u>

The largest portion of the Commission's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Commission uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

As can be seen in the table on the following page total revenues and contributions increased by \$155,120 due to increases in rental revenue, HUD operating grants, other income and interest income, which were partially offset by a decrease in capital contribution.

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30,**

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues and Contributions				
Operating - non-operating -capital contributions:				
Rental revenue	\$ 440,274	\$ 408,877	31,397	7.7%
HUD operating grants	1,273,140	1,069,300	203,840	19.1%
Interest income	10,233	9,284	949	10.2%
Capital Contributions	21,000	109,252	(88,252)	80.8%
Other income	16,225	9,039	7,186	79.5%
Total Revenues and Contributions	<u>1,760,872</u>	<u>1,605,752</u>	<u>155,120</u>	9.7%
Expenses				
Personal services	327,612	366,709	(39,097)	10.7%
Utilities	202,470	184,160	18,310	9.9%
Operations and maintenance	101,560	91,539	10,021	10.9%
Non routine maintenance	33,223	8,734	24,489	280.4%
Insurance	30,344	35,607	(5,263)	14.8%
Other supplies and expenses	60,920	57,947	2,973	5.1%
Housing assistance payments	688,791	725,312	(36,521)	5.0%
Depreciation	272,103	267,264	4,839	1.8%
Total Expenses	<u>1,717,023</u>	<u>1,737,272</u>	<u>(20,249)</u>	1.2%
Change in net assets	43,849	(131,520)	175,369	
Beginning net assets	4,446,203	4,577,723	(131,520)	
Prior period adjustments	<u>42,749</u>	<u>----</u>	<u>42,749</u>	
Beginning net assets, adjusted	<u>4,488,952</u>	<u>4,577,723</u>	<u>(88,771)</u>	
Ending net assets	<u>\$ 4,532,801</u>	<u>\$ 4,446,203</u>	<u>\$ 86,598</u>	

Total expenses for the Commission decreased by \$20,249 due to decreases in personal services, insurance and housing assistance payments, which were partially offset by increases in utilities, operations and maintenance, non routine maintenance, other supplies and expenses and depreciation.

During fiscal year ended June 30, 2006, Eastpointe Housing Commission maintained a lease-up rate of 99.3% in its Public Housing Program and a lease-up rate of 90.7% in its Section 8 program. The Public Housing lease-up rate is well in excess of HUD guidelines. The lease-up rate for Section 8 is under the HUD-prescribed target of 97%. We encountered unanticipated delays in getting the new Section 8 units leased up during fiscal year ended June 30, 2006. We have been working diligently to increase our Section 8 lease-up rate and at the time of this report, we are fully leased up.

CAPITAL ASSETS

Capital Assets - The Eastpointe Housing Commission's investment in capital assets, as of June 30, 2006 amounts to \$3,756,701 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment and construction in progress.

CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION JUNE 30,

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>
Land	\$ 239,525	\$ 239,525	\$ ----
Building	3,914,303	3,914,303	----
Furniture, equipment and machinery- dwelling	83,616	83,616	----
Furniture, equipment and machinery- administration	191,212	187,221	3,991
Leasehold improvements	2,578,780	2,557,867	20,913
Construction in progress	<u>21,000</u>	<u>----</u>	<u>21,000</u>
	7,028,436	6,982,532	45,904
Accumulated depreciation	<u>3,271,735</u>	<u>2,999,632</u>	<u>272,103</u>
Total	<u>\$ 3,756,701</u>	<u>\$ 3,982,900</u>	<u>\$ (226,199)</u>

The total decrease in the Commission's capital assets for the current fiscal year was \$226,199 or 5.7% in terms of net book value. Actual expenditures to purchase equipment and construct capital assets were \$45,903 for the year. The Commission has \$408,463 available in Capital Funds to draw down and spend in the future.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Housing Commission is primarily dependent upon HUD for the funding of operations; therefore, the Housing Commission is affected more by the Federal budget than by local economic conditions. The funding of programs could be significantly affected by the 2007 Federal budget.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed Jody L. Wenz, Executive Director; Eastpointe Housing Commission; 15701 E. Nine Mile Rd.; Eastpointe, MI 48021.